



Senate Budget Committee Chairman Judd Gregg (R-NH)

Senate Floor Speech on Budgetary Issues in 110th Congress

**(Unofficial Transcript)
Wednesday, January 10, 2007**

Mr. Gregg: Thank you, Mr. President. I wanted to rise to discuss again what I consider to be the single-largest fiscal policy issue which we have confronting us as a nation. And that is the issue of how we pay for my generation, the baby-boom generation, which is about to begin to retire and the effects that our retirement as a generation will have on the capacity of our children to be successful and have a quality of life that's equal to what we have had as a nation.

We confront a conundrum where the baby-boom generation has been the most productive and most resilient generation in the history of this nation. As a result, through each decade of its growth, beginning in the 1950's when it added a lot of elementary schools, through the 1960's, 1970's, 1980's and 1990's, and now through 2000 when it has created a huge economic engine in this country because it has been so productive as a nation, we have been able to contribute to this society and to our nation the highest quality of life in the history of our nation and in the history of the world. But now this generation which is the largest generation in our history is going to begin to retire. And all the retirement systems that have been built up over the years in order to benefit the people who retire in our nation and make sure that people can retire with dignity and which have been extraordinarily successful such as Social Security and Medicare and to a lesser extent Medicaid, are all structured on the basic premise that Franklin Roosevelt had which is you will have a lot of people working and only a few people retired. It is the pyramid. The concept you would have back in 1950 for example, 13 people working for every one person retired, so that the working Americans would be able to not only earn a good living for themselves, but would also be able to support those people who are retired.

Well, that equation fails in the present projected future here because the baby-boom generation doubles the number of retirees. We go from approximately 35 million retirees, to 70 million retirees. We go from a system of 13 people working for every one person retired to a system which will have two people working for every one person retired by the year 2025. The practical effect is you go from a pyramid to a rectangle and you have people working trying to support people who are retired, and there aren't enough people working to

do that. And so you create a huge burden and basically a fiscal crisis of inordinate proportions.

Basically we have one chart. I have one chart here which clearly reflects this problem in staggering terms. This is a chart which just simply shows three costs that the federal government incurs: Social Security, Medicare and Medicaid. The three largest entitlement accounts as they are referred to. Those accounts today make up about 8% of our Gross National Product. Historically the federal government spends about 20% of Gross National Product. If it gets much above that -- 20% of Gross National Product -- then it becomes an extreme burden for the productive side of our economy, and you end up with people being able to produce less because the government is taking so much out of their paycheck and productivity drops and quality of life drops. So we as a nation have always sort of maintained within a fairly small range this concept that the federal government should spend about 20% of the Gross National Product. That goes way back. This chart takes us back to 1962 to reflect that. In times of war, that obviously spikes. It has spiked historically, especially World War II. But that is the traditional amount.

However, the problem which we confront is that the cost of Social Security, Medicare and Medicaid alone, those three items, because of the retirement of this huge generation and the price which it will take to pay these benefits for that generation, actually will absorb 20% of Gross National Product in the mid-2020 period. Not that far away. Not that far away. Within 20 years, which isn't that far, we will actually have a situation where three federal programs are using all the dollars which historically the federal government has used in order to support the purposes of the federal government. So that would mean theoretically that the only thing you could pay for would be those three programs, that you could no longer pay for national defense, which of course is the first responsibility of a federal government. Couldn't pay for education. Couldn't pay for health care beyond these items. You couldn't pay for environmental protection. You couldn't pay for all the things that the federal government does that are significant in improving the quality of our standard of life in this country.

That, however, doesn't end the problem, because the cost of this generation continues to go up. In fact, just those three programs breaks through the 20% line and goes well up into the high 20% -- 28%, 29% -- of Gross National Product as projected as we head out into 2030, 2040. So basically what you see here is the fact that we are headed towards a situation where the cost of these three programs alone will essentially bankrupt our country. The practical implications of this are that the younger generation, the people who are working for a living, our children and our grandchildren, will have to pay a tax burden that is so high that their discretionary income won't be able to be spent on educating their children for a better college education, won't be able to be spent on buying a home. Their discretionary money will go to taxes to support this, the cost of these three entitlement programs.

Well, this is not a sustainable idea. This is not an idea that any responsible person involved in governance could subscribe to. Certainly one generation has no right to pass on to another generation a set of costs which are going to bankrupt the capacity of that next generation to live as good a quality of life as the prior generation was living. It's not right. It's not fair. And it's not appropriate. And another thing that this chart shows is that really as a practical matter, you can't tax your way out of this situation. You know, a lot of people, we hear a lot of talk, well, we'll just raise taxes. We'll do it with tax. You cannot tax your way out of this situation.

You cannot raise taxes high enough to pay for the costs which we are going to incur as a result of these entitlement programs having to benefit so many Americans.

And why is that? It's very simple. Historically federal taxes have been about 18.2% of Gross National Product. 18.2% of Gross National Product. Today we're paying -- we've got federal taxes bringing in about 18.4%, 18.5% of Gross National Product. We're actually over the historic norm today. But once you get federal taxes up above 20% and they head towards 23%, 24%, 25%, or even higher in order to accomplish coverage of these costs, you are essentially going to be taxing productive Americans at a level where you will reduce dramatically their productivity. And it's sort of a downward spiral event. It's like killing the goose that's laying the golden egg situation. You cannot lay that sort of tax burden on a productive people and expect them to continue to be productive, because the natural human nature, the response to something like that is that people become less productive as they see their next dollar that they earn, 60%, 70%, 80% of it going to the federal government for taxes, they're going to be less inclined to go out and earn that next dollar because they're keeping so little of it. And that's just human nature.

And so it's a downward spiral event once you get taxes above a certain level, they stop producing revenues because people do tax avoidance activity, or alternatively, they simply stop being as productive and the society stops investing and the capital formation drops off and jobs stop being created and you basically drive yourself into a severe recession or you become less competitive with the rest of the world which doesn't have the same problem. And so you can't tax your way out of this issue. You actually have to address the fundamental underlying problem, which is that these programs as they're presently structured are not sustainable in the future, and you've got to figure out a way to make them sustainable.

And there are many ways to do this. You know, there's no one solution to this. There's no magic bullet out there, although with Social Security, it's a much simpler exercise from the standpoint of moving parts, but there are many ways to continue to deliver high quality retirement services in Social Security, Medicare, and in Medicaid, but have them be affordable to the generations paying for them. About five years to go, myself, and Senator Breaux, Senator Bob Kerrey, Senator Chuck Robb, Senator Moynihan came together for a plan for Social Security, which was bipartisan and which would have solved the problem over long term, which would have continued the benefit structure which was extremely robust, in fact, even more robust than today's system, and yet made it solvent, put it in a position where it was affordable. And yes, there were revenues included in that package and any solution to this is going to have to involve both benefit adjustments and revenues. There's no way you can do it all on one side or the other.

But the fact is we have to face up to it we have to, as a society, face up to this need and that's, I guess, my point here today. We're running out of time, and I've been delivering this message for a while and the time clock is running out of time, but we've been delivering it for a time. But we have an opportunity, and it's a unique window.

There aren't a whole lot of advantages to the fact that I'm no longer chairman of the committee I used to be chairman of. But one of the advantages is, from my perspective, one of the advantages is that we now have a divided government where you have a Democratic Congress and a Republican presidency. I happen to believe any solution to this issue has to be absolutely bipartisan. There can be no question from the American people that a solution

on these issues is not done in a bipartisan way, because if the American people think it isn't fair, they're not going to be attracted to it and they're going to think it's gamesmanship by one party or the other. So anything that has to be done here has to be done in a bipartisan way. Well, we are in a climate where any solution that is going to occur here is going to be bipartisan. And that is the good news, but that window of opportunity isn't going to be open that long. We're going to head into a presidential election pretty soon, and both of the last presidential elections we've seen outrageous, despicable in my opinion demagoguery on the issue of Social Security. The well was poisoned before the campaign was even started. So the opportunity to address this, to develop a bipartisan solution, has to occur sooner rather than later, and it has to be done in a way that the American people are comfortable is fair.

Now, I put forward a proposal on this, I put forward a proposal that deal with a lot of things on fiscal responsibility, a package called S.O.S. with about 30 sponsors of that package. But one of the packages was a procedure to deliver results. I believe we should use procedure to drive policy, because I believe once you put policy on the table everybody takes shots at it in this city, gather around and pick it apart. It makes much more sense to use procedure to drive policy and that procedure I use is basically a fast-track bipartisan commission where you absolutely have to have bipartisan decisions and you have the supermajority approval and you do it on a fast track and you just have people who are going to be players sitting around the room to try to work it out.

That's not however, the only way to approach this. There are a lot of different ways to approach this, and I would hope that we, as a Congress, and our leadership in this body and I know our leadership is interested in this, I've talked with people on the other side of the aisle who are active on this issue and who are obviously active in leadership and there is a deep interest in this, but the time to move is now. We're running out of time and we've got to get on to this. So I wanted to make this point again. I stand ready, and a lot of members on my side stand ready to pursue substantive action in this area, and hopefully we can do it.

On a second point, and it's a point I raised with the Assistant Leader. We're about to get \$100 billion-plus supplemental on the war. Nobody in the Senate in any way is going to vote in a manner that doesn't give our troops what they need when our troops are in the field, doesn't give it at any time, but especially when they're in the field. So these supplementals are important to make sure that we adequately fund people who are putting their lives on the line for us, but the process that is -- has been evolved here is not right, it's just plain not right.

This will be the fourth year, I think it's like the sixth supplemental or maybe it's the seventh or maybe it's the eighth, I've lost track, that will have come up designated as an emergency from the Pentagon and basically bypassed the process of review through the authorizing committee, and really, for all intents and purposes through the appropriations committee and comes directly to the floor and spends tens of billions of dollars. It is a shadow budget, as I have described it. We have a budget process around here. Granted, it's not working that well. Hopefully it will work better this year, but we do have a budget process and the purpose of the budget process is to give adequate review and fiscal discipline so that we are responsible stewards of the taxpayers' money.

But when you have this shadow budget that comes up entirely outside the budget process and continues to come up and becomes almost the regular order approach to how we fund the Pentagon now, you are essentially saying budgets don't matter. Review of the substance

doesn't matter. Spending should simply be done as requested without any oversight and without any discipline as to how much is going to be spent. And I don't think that's the right way to approach this.

Now, in the last budget, I set aside almost \$90 billion for supplementals for the war. The Pentagon wouldn't give us a number. They set up a euphemistic number. They wouldn't even support that number. So we arbitrarily set \$90 billion because that was the average of what the supplemental requests had been over the prior three years. And then we subjected it to budgetary restraint so that if it wanted to go over the \$90 billion, you had to explain it, you had to justify it, and you had to have a supermajority to accomplish it if somebody wanted to challenge, but only if somebody wanted to challenge it. And what's happened now is that we're looking at \$170 billion, not \$90 billion of spending in this year. That's almost \$130 billion over what the Pentagon claimed they euphemistically sent up as a throwaway number when we had a hearing on this so essentially what we're seeing is that there's been a decision downtown to do an end-run around the budget process and essentially an end-run around the oversight process.

And we also are seeing, regrettably, that they're gaming the system, that at least in the last supplemental, and it is reported in this supplemental, although I haven't seen the numbers, there was a fair amount of spending which had nothing -- well, it had something, but it was truly tangential to the war effort. It went to the core issue of the defense budget, which is still spending around -- over \$400 billion. That's on top of the supplementals. And so they were using this shadow budget where they knew they had no restraints to basically pick up spending which should have been in the core budget and had at least gone through the authorizing process. And there were a number of items in there that fell under that category including the whole restructuring of the army. And now we're even hearing they might have Joint Strike Fighters in this next supplemental, two of them potentially, at least that's what's been reported. Maybe they'll be out by the time we get here because there's been light shined on it.

But the fact is it shouldn't work that way. We know we're in a war. We know approximately what that war's going to cost. We should have a process which reviews it in an orderly fashion, and that's the way it was historically done here. The Vietnam War was appropriated and authorized, all the spending. Almost all the spending went through an authorizing and appropriating process. The Korean War, almost all the appropriations went through an authorizing and appropriating process. It's a very predictable number right now. We're within range of a very predictable number. You don't have to send \$170 billion up here as a supplemental and designate it emergency to fight this war. We know that it's going to cost us in that range, and it should go through the authorizing process and then through the appropriating process. It shouldn't come up here as an emergency.

Sure, there may be something on top of that that you may need, something that occurred during the year, you may have to put in another X number of dollars, and that may be a legitimate emergency. But the core spending on this war should be accounted for in the regular order and should be reviewed so that it doesn't end up being a gamesmanship exercise coming at us from downtown with the purposes being to essentially avoid, ignore, and try to mute the capacity of the Congress to have any impact on how this spending occurs and whether it's legitimately part of the war or legitimately part of the core defense process. I've heard mumblings from the administration, at least from OMB that they're going to try to

budget for this stuff that is appropriately not in the war -- by "this stuff," I mean things that are appropriately not in the war effort but in the Defense Department's underlying budget that they're going to take those out and put them in there, but they would do more in the underlying defense budget.

But they need to do more than that. They need to structure the budget that they send up here so that if they want to have a separate account for the war fighting, fine. I can understand that, because we don't want to build it into the base. 100% for that. But it should be a separate budget, it shouldn't an emergency budget. And it should go through the authorizing and the appropriating process. We have time to do that. We have a very strong authorizing committee in this Senate, and I sit on the appropriating committee and I can tell you we've got an extremely strong appropriating committee and we can review these numbers fairly quickly and analyze whether or not it's fair and appropriate, and I suspect 95%, 98% of it will be approved. But the fact that we're going to approve it doesn't mean that it shouldn't at least be reviewed and that basically muting and undermining the legitimacy of the congressional role in funding is, I think, undermining to some degree the commitment to the war effort itself.

It's really counterproductive to having popular support for the war effort. so I would hope that when they send up this next supplemental that they not designate it as an emergency and that they basically ask that it go through the process, but tell us to do it in a quick way. Don't spend a month doing this, do it in a week and a half, do it in two weeks, we can do that. Otherwise, I believe we continue on a path that is harmful not only to the relationship between the executive and legislative branch, it's harmful to the good governance and the good stewardship of the tax dollars, and it's more importantly, harmful to the war effort itself. Mr. President, at this point I yield the floor and make a point of order that a quorum's not present.

#